

BANK INDONESIA REGULATION

NUMBER: 9/17/PBI/2007

CONCERNING

THE RATING SYSTEM FOR RURAL BANKS

BASED ON SHARIA PRINCIPLES

WITH GOD'S BLESSING

GOVERNOR OF BANK INDONESIA

- Considering:
- a. whereas the soundness of Rural Bank based on Sharia Principles is of interest to all stakeholders, including bank owners and management, public using bank services or Bank Indonesia as the bank supervisory authority;
 - b. whereas the application of Sharia principles in the management of Rural Bank based on Sharia principles is one of the factors influencing the rating system;
 - c. whereas the revision of Sharia financial standard is one of the factors influencing the rating system for Rural Bank based on Sharia principles;
 - d. whereas pursuant to considerations set forth in letter a, letter b and letter c, it is deemed necessary to regulate the rating system for Rural Bank based on Sharia principles in a Bank Indonesia Regulation.

- In view of:
1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic Indonesia Number 31 of 1992, Supplement to the State of Gazette of the Republic Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic Indonesia Number 182 of 1998, State Gazette of Republic Indonesia Number 3790);
 2. Act Number 23 in 1999 concerning Bank Indonesia (State Gazette of Republic Indonesia of the Republic Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic Indonesia Number 4357);

HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING THE RATING SYSTEM FOR RURAL BANKS BASED ON SHARIA PRINCIPLES

CHAPTER 1...

CHAPTER 1
GENERAL PROVISIONS
Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. Rural Bank based on Sharia Principles hereinafter referred to as BPRS is the Rural Bank as referred to in Article 1 Number 4 of Act Number. 7 of 1992 regarding Banking as amended by Act Number 10 of 1998 conducting business activity based on Sharia principles.
2. Board of Directors:
 - a. For BPRS legally incorporated as Limited Liability Company (PT) is board of director as referred to in Article 1 Number 5 of Act Number 40 of 2007 concerning Limited Liability Companies;
 - b. For BPRS legally incorporated as Regional Government Enterprises (PD) is board of directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprises;
 - c. For BPRS legally incorporated as Cooperative is executive board as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives;
3. Board of Commissioners:
 - a. For BPRS legally incorporated as Limited Liability Company” (PT) is Board of Commissioners as referred to in Article 1 Number 6 of Act Number 40 of 2007 concerning Limited Liability Companies;
 - b. For BPRS legally incorporated as Regional Government Enterprises Company (PD) is board of supervisors as referred to in Article 19 of Act Number 5 of 1962 concerning Regional Government Enterprises Companies;
 - c. For BPRS legally incorporated as Cooperative is board of supervisors as referred to in Article 38 of Act Number 25 of 1992 concerning Cooperatives;
4. BPRS Rating is the result of quantitative and qualitative evaluations on various aspects affecting the condition or performance of BPRS through:
 - a. Quantitative and qualitative evaluations on capital, asset quality, earnings, liquidity factors; and
 - b. Qualitative evaluation on management factor
5. Quantitative evaluation is the evaluation on the position, trends and projections of financial ratio of BPRS;
6. Qualitative evaluation is the evaluation on management factor and result of quantitative factors evaluation by taking into account supporting indicators and or relevant benchmarks.
7. Risk management is a set of procedures and methodology used to identify, measure, observe, and control the risk from BPRS business operations.

8. Financial...

8. Financial factor is one of the determining factors of BPRS Rating consisting of factors on capital, asset quality, earnings, and liquidity.
9. Rating of Financial Factor is the final result of combined evaluation from capital factor, asset quality, earnings, and liquidity.
10. Composite Rating is the ultimate result obtained from BPRS rating combining rating of financial factor and management factor.

CHAPTER II

EVALUATION OF BPRS RATING

Article 2

- (1) BPRS is required to conduct business on the basis of prudential principles and Sharia principles in order to maintaining or improving BPRS rating.
- (2) The Board of Commissioners and the Board of Directors of BPRS are required to monitor and take the necessary action in order to keep the BPRS rating as referred to in paragraph (1).

Article 3

Evaluation of BPRS Rating encompasses the evaluation on the followings factors:

- a. Capital;
- b. Asset quality;
- c. Earnings;
- d. Liquidity; and
- e. Management.

Article 4

- (1) Evaluation on capital factor as referred to in Article 3 letter a covers evaluation on the following components:
 - a. Capital adequacy and capital projection and capital ability in covering risk; and
 - b. Intermediate function on investment fund using profit sharing method.
- (2) Evaluation on asset quality factor as referred to in Article 3 letter b covers evaluation on the following components:
 - a. earning asset quality and concentration of risk exposure; and
 - b. Adequacy of policy and procedures, documentation system and performance in management of problem earning assets.

(3) Evaluation...

- (3) Evaluation on earnings factor as referred to in Article 3 letter c covers evaluation on the following components:
 - a. Capability of earning asset in generating income; and
 - b. Operational efficiency level.
- (4) Evaluation on liquidity factor as referred to in Article 3 letter d covers evaluation on the following components:
 - a. Ability to meet short-term obligation and maturity mismatch potential; and
 - b. Adequacy of policy in liquidity management.
- (5) Evaluation on management factor as referred to in Article 3 letter e covers evaluation on the following components:
 - a. General management quality, including meeting the commitment to Bank Indonesia or other parties;
 - b. Application of risk management mainly management understanding on BPRS risk; and
 - c. BPRS compliance with Sharia principles and social function implementation.

Article 5

- (1) Evaluation on components of capital factor, asset quality factor, earnings factor and liquidity factor is conducted quantitatively.
- (2) Evaluation on components of management factor is conducted qualitatively by taking into account supporting indicators and/or relevant benchmark.
- (3) Based on evaluation of each component as referred to in paragraph (1) and paragraph (2), a rating shall be determined for each component.
- (4) Rating for each component in the form of ratio as referred to in paragraph (1) shall be defined in 5 (five) Ratings, namely:
 - a. Rating 1;
 - b. Rating 2;
 - c. Rating 3;
 - d. Rating 4; or
 - e. Rating 5.
- (5). Rating for each component from management factor as referred to in paragraph (2) shall be defined in 4 (four) Ratings, namely:
 - a. Rating A;
 - b. Rating B;
 - c. Rating C; or
 - d. Rating D.

Article 6...

Article 6

- (1) Based on the outcome of rating, each component as referred to in Article 5 shall be evaluated and a rating shall be determined for each factor.
- (2) Evaluation and definition of rating of capital factor, asset quality factor, earnings factor and liquidity factor shall be conducted by means of analysis on key ratio rating and supporting ratio rating by taking into account supporting indicators and/or relevant benchmark.
- (3) Evaluation and definition of rating of management factor shall be conducted by means of analysis on component rating of management factor by taking into account other relevant information.

Article 7

- (1) Rating of capital factor, asset quality factor, earnings factor, and liquidity factor as referred to in Article 6 paragraph (2) shall be divided into 5 (five) ratings:
 - a. Rating 1;
 - b. Rating 2;
 - c. Rating 3;
 - d. Rating 4; or
 - e. Rating 5.
- (2) Evaluation on management factor rating as referred in Article 6 paragraph (3) shall be divided into 4 (four) following ratings:
 - a. Management rating A indicating that BPRS has:
 - (1). Good quality of corporate governance;
 - (2). Strong risk management; and/or
 - (3). High compliance with Sharia principles and social function implementation.
 - b. Management rating B indicating that BPRS has:
 - (1). Sufficient quality of corporate governance;
 - (2). Adequate risk management; and/or
 - (3). Sufficient compliance with Sharia principles and social function implementation
 - c. Management rating C indicating that BPRS has:
 - (1). Lack of quality of corporate governance;
 - (2). Sufficient risk management; and/or
 - (3). Low compliance with Sharia principles and or social function implementation
 - d. Management rating D indicating that BPRS has:
 - (1). Bad quality of corporate governance;
 - (2). Weak risk management; and/or
 - (3). Very low compliance with applicable regulations and/or Sharia principles and or social function implementation.

Article 8...

Article 8

- (1) Based on outcome of rating determination as referred to in Article 6 paragraph (2), a rating shall be evaluated and determined on Financial Factor.
- (2) Evaluation Process of Financial Factor shall be conducted by accumulating the rating output of capital factor, asset quality factor, earnings factor and liquidity factor.
- (3) Rating of Financial Factor shall be divided into 5 (five) following ratings:
 - a. Rating 1 of Financial Factor indicating that Bank condition has an excellent financial performance.
 - b. Rating 2 of Financial Factor indicating that Bank condition has good financial performance.
 - c. Rating 3 of Financial Factor indicating that Bank condition has a fair financial performance.
 - d. Rating 4 of Financial Factor indicating that Bank condition has a poor financial performance.
 - e. Rating 5 of Financial Factor indicating that Bank condition has an unsound financial performance.

Article 9

- (1) Based on the Rating of Financial factor and Management Factor, a Composite rating shall be determined.
- (2) Evaluation process of Composite Rating shall be conducted by means of combination of financial factor rating and management factor rating by using conversion table and taking into account supporting indicators and or relevant benchmark.
- (3) Composite Rating shall be divided into 5 (five) following ratings:
 - a. Composite Rating 1 indicating that Bank has an excellent soundness rating condition as the outcome of an excellent business management.
 - b. Composite Rating 2 indicating that Bank has a good soundness rating condition as the outcome of a good business management.
 - c. Composite Rating 3 indicating that Bank has a fair soundness rating condition as the outcome of a fair business management.
 - d. Composite Rating 4 indicating that Bank has a poor soundness rating condition as the outcome of a poor business management.
 - c. Composite Rating 5 indicating that Bank has an unsound rating as the outcome of bad business management.

Article 10

BPRS shall be required to make calculation on financial ratios related to evaluation of soundness rating of BPRS on a quarterly basis for the position of end of March, June, September and December.

CHAPTER III...

CHAPTER III

RATING MECHANISM AND CORRECTIVE ACTIONS

Article 11

- (1) For the purpose of bank supervision, Bank Indonesia shall conduct BPRS Rating on a quarterly basis for position of end of March, June, September and December.
- (2) Evaluation of BPRS Rating shall be conducted based on examination result, periodic report submitted by BPRS and/or other information.
- (3) For the purpose of evaluation on BPRS rating indicating BPRS condition, Bank Indonesia shall request supplementary information and additional explanation from BPRS.

Article 12

- (1) Based on evaluation result as referred to in Article 11, Bank Indonesia shall request Board of Directors, Board of Commissioners, and/or Shareholders to submit an action plan if evaluation result of BPRS Rating indicates:
 - a. One or more factors of capital, asset quality, earnings, and liquidity have rating 4 or 5;
 - b. Management factor has a rating C or D, and/or
 - c. BPRS has Composite rating 4 or 5
- (2) BPRS is required to submit written action plan as referred to in paragraph (1) not later than 21 (twenty one) working days after the requesting date of Bank Indonesia.
- (3) Action plan to be submitted by BPRS to Bank Indonesia is BPRS's commitment that must be fulfilled.

Article 13

- (1) BPRS is required to submit an action plan as referred to in Article 11 paragraph (1) not later than 10 (ten) working days after implementation of action plan.
- (2) In the event of gradual implementation of action plan, BPRS is required to report the implementation of each stage of the concerned action plan not later than 10 (ten) working days after implementation of each stage.
- (3) In case BPRS has not yet implemented and or completed an action plan that has been agreed, BPRS is required to report the reason and cause for not yet implementing and or completing the concerned action plan not later than 10 (ten) working days after target of completion is determined.

CHAPTER IV...

CHAPTER IV SANCTION

Article 14

Any BPRS violating the provisions stipulated in Article 2, Article 10, Article 12 paragraph (2), and Article 13 shall be liable to administrative sanctions as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 including the following:

- a. Written notice; and/or
- b. Inclusion of Management and or Bank shareholders in the list of people prohibited from becoming Bank shareholders and managers.

Article 15

Any BPRS failing to meet or implement their obligations as referred to in Article 12 paragraph (3) shall be liable to the following sanctions:

- a. Written notice;
- b. Obligation to pay Rp 1,000,000 (one million rupiah); and/or
- c. Inclusion of Management and or Bank shareholders in the list of people prohibited from becoming Bank shareholders and managers.

CHAPTER V TRANSITIONAL PROVISIONS

Article 16

The obligation of BPRS to conduct calculation of financial ratios as referred to in Article 10 for the first time shall be using the data in the position of end of March, 2008.

CHAPTER VI CLOSING PROVISION

Article 17

Further provisions necessary for the implementation of this Bank Indonesia Regulation shall be stipulated in Circular Letter of Bank Indonesia.

Article 18...

Article 18

With the enactment of this Bank Indonesia Regulation, The Decree the Board of Directors of Bank Indonesia No. 30/12/KEP/DIR dated April 30, 1997 concerning Evaluation of Soundness Rating System of Sharia Rural Bank (BPRS) is declared no longer valid for Rural Bank based on Sharia principles.

Article 19

This Bank Indonesia Regulation shall come into force since the date of its enactment.

For the public to be informed, it is ordered that this Bank Indonesia Regulation be promulgated in the State Gazette of the Republic of Indonesia.

Enacted in Jakarta

Dated: December 4, 2007

On behalf of

The Governor Bank Indonesia

MIRANDA S.GOELTOM

SENIOR DEPUTY GOVERNOR

Promulgated in Jakarta

Date.....

Minister of Law and Human Right of Republic Indonesia

ANDI MATTALATTA

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 9/17/PBI/2007
CONCERNING
THE RATING SYSTEM FOR RURAL BANKS
BASED ON SHARIA PRINCIPLES

GENERAL

The rating of Rural Bank based on Sharia Principles (BPRS) is of interest to all stakeholders, including bank owners and management, public using bank services or Bank Indonesia as the bank supervisory authority as well as other parties. This rating of BPRS can be used by these stakeholders to evaluate BPRS performance in the application of prudential principle, compliance with applicable provisions and risk management.

Apart from being required to meet prudential principle and to apply risk management, BPRS must also be able to conduct banking operations in accordance with Sharia principles in collecting and distributing public funds as well as other activities related to banking services. In the evaluation process of BPRS rating evaluation of inherent risk must also be included in bank activities. Moreover, the dynamic development of Bank condition requires a dynamic evaluation system of BPRS rating thus separate provisions must be established in order to provide a description regarding the present and future condition including in applying Sharia principles.

BPRS rating evaluation system is conducted through qualitative and quantitative approach of capital factor, asset quality, earnings, and liquidity and management. For BPRS, the evaluation final outcome can be used as a means to determine future business strategy and for Bank Indonesia can be used as a means for determining and implementing the strategy for advising and supervision.

ARTICLE BY ARTICLE

Article 1

Self Explanatory

Article 2

Self Explanatory

Article 3

Letter a

Evaluation on capital is a quantitative and qualitative evaluation on BPRS capital adequacy to anticipate current and future risk exposures.

Letter b...

Letter b

Evaluation on asset quality is a quantitative and qualitative evaluation on BPRS asset condition and adequacy of financing risk management.

Letter c

Evaluation on earnings is a quantitative and qualitative evaluation on condition and capacity of BPRS to produce income in order to sustain operational activities and capital.

Letter d

Evaluation on liquidity is a quantitative and qualitative evaluation on capacity of BPRS to maintain adequate level to meet short-term obligations.

Letter e

Evaluation on management is a quantitative and qualitative evaluation on managerial capacity of BPRS management in conducting business including commitment to Bank Indonesia or other parties, adequacy of risk management, and compliance with Sharia principle and implementation of social function such as the role of Bank in managing funds of zakat, infaq, shadaqah (ZIS), money wakaf and other relevant issues.

Article 4

Paragraph (1)

Intermediation function on profit sharing fund is the role of BPRS as management of restricted and non restricted investment fund using profit sharing method.

Paragraph (2)

Self explanatory

Paragraph (3)

Letter a

Self explanatory

Letter b

The understanding of BPRS management on BPRS risk can be evaluated from the statement of management, strategy, BPRS performance or other information.

Letter c

Self explanatory

Paragraph (4)

Self explanatory

Paragraph (5)

Self explanatory

Article 5

Paragraph (1)

Components of capital factor, asset quality factor, earnings factor, and liquidity factor are in the form of financial ratios.

Paragraph (2)...

Paragraph (2)

Self explanatory

Paragraph (3)

Self explanatory

Paragraph (4)

Rating 1 indicates the best condition of BPRS and rating 5 indicates the worst condition of BPRS.

Paragraph (5)

Rating A indicates the best quality of corporate governance and rating D indicates the worst quality of corporate governance.

Article 6

Paragraph (1)

Self explanatory

Paragraph (2)

“Key ratios” are defined as the determinant ratios for factor rating score.

“Supporting ratios” are defined as ratio adding to or deducting from the factor rating scores.

“Supporting indicator ratios are defined as other information influencing evaluation outcome on rating factor such as observation ratio.

“Relevant benchmarks are defined as comparable similar information in the industry such as information on average ratio of capital adequacy for BPRS industry.

Paragraph (3)

“Other relevant informations” are defined as informations related to evaluated factor.

Article 7

Paragraph (1)

Rating 1 indicates the best condition of BPRS and rating 5 indicates the worst condition of BPRS.

Paragraph (2)

BPRS corporate governance evaluation includes evaluation on rating of compliance with applicable provisions.

Article 8

Paragraph (1)

Self explanatory

Paragraph (2)...

Paragraph (2)

Self explanatory

Paragraph (3)

Letter a

“Excellent financial performance” is defined as BPRS has capacity to generate profit and high level of operational efficiency for optimal development.

Letter b

“Good financial performance” is defined as BPRS has capacity to generate profit and high level of operational efficiency for development.

Letter c

“Fair financial performance” is defined as BPRS has capacity to generate profit and fair level of operational efficiency, however, BPRS has weaknesses in managing bank that may lead to downgrade financial condition.

Letter d

“Poor financial performance” is defined as BPRS has financial difficulty that may potentially endanger its business sustainability.

Letter e

“Unsound financial performance” is defined as BPRS has financial difficulty that may endanger business sustainability and with slight possibility for survival.

Article 9

Paragraph (1)

Self explanatory

Paragraph (2)

Self explanatory

Paragraph (3)

Letter a

“Excellent business management” is defined as if, BPRS has relatively no administrative and operational weakness in managing business activities.

Letter b

“Good business management” is defined as if, BPRS still has administrative and operational weakness in managing business activities but can be immediately solved by regular action.

Letter c

“Fair business management” is defined as if, in managing business activities BPRS has weaknesses that can reduce their composite rating if BPRS does not do corrective action immediately.

Letter d...

Letter d

“Poor business management” is defined as if in managing business activities, BPRS has serious weakness and will potentially experience difficulty that may endanger business sustainability if no effective action is taken.

Letter e

“Unsound business management” is if in managing business activities BPRS has a very serious weakness and will experience difficulty that may halt the business if no immediate and effective action is taken.

Article 10

Self explanatory

Article 11

Paragraph (1)

Self explanatory

Paragraph (2)

Other information encompasses but not limited to evaluation outcome by authority or other authorized institution.

Paragraph (3)

Self explanatory

Article 12

Paragraph (1)

Action plan encompasses corrective measures on significant problem with target of solution within certain period

Paragraph (2)

“Requested date” is defined as the date of the letter of Bank Indonesia or the date of minutes of meeting.

Paragraph (3)

Self explanatory

Article 13

Paragraph (1)

Implementation report of action plan submitted by BPRS includes but not limited to evidence of implementation and relevant supporting documents.

Paragraph (2)

Self explanatory

Paragraph (3)

Paragraph (3)

Self explanatory

Article 14

Self explanatory

Article 15

Self explanatory

Article 16

Self explanatory

Article 17

Self explanatory

Article 18

Self explanatory

Article 19

Self explanatory